

AR35

Potash Corporation of Saskatchewan

Annual Report for the year 1977





On October 29, 1976, the Potash Corporation of Saskatchewan purchased its first mine — Cory Division.

The photo at left shows Chairman of the Board, Hon. Elwood Cowley, presenting the keys to the plant to Corporation President David S. Dombowsky.

Letter of Transmittal

November, 1977

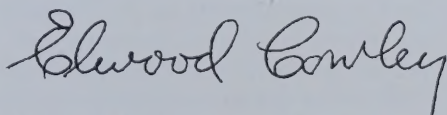
To His Honour
The Honourable George Porteous
Lieutenant Governor of the Province of Saskatchewan

Sir:

I have the honour to submit herewith the Annual Report of the Potash Corporation of Saskatchewan for the year ended June 30, 1977, including the financial statements in the form required by the Treasury Board and duly certified in accordance with The Potash Corporation of Saskatchewan Act.

I have the honour to be, Sir,

Your obedient servant,

A handwritten signature in cursive script, reading "Elwood Cowley". The signature is written in dark ink and is positioned above the printed name and title.

Elwood Cowley
Minister in Charge of the Potash
Corporation of Saskatchewan

Remarks from the Chairman

This report is directed to the citizens of Saskatchewan who, as shareholders in a relatively new corporation, have an equal stake in our long-term success.

As the chief spokesman for the Board of Directors of the Potash Corporation of Saskatchewan, I would like to begin by briefly reviewing our original objectives in directly entering Saskatchewan's potash industry.

They were to guarantee a fair and lasting return to the people of Saskatchewan from a vital non-renewable resource; to guarantee an orderly expansion of an industry that is critical to the long-term security of the province; and in the end, to keep up with steadily growing world demand and maintain the Province's position as a dominant force in a world-wide industry.

At the conclusion of our first fiscal year, the Corporation had purchased about 19% of the Province's productive capacity. Our subsequent purchase of Alwinsal — now called Lanigan Division — has increased this share to more than 25%; and negotiations have begun for further purchases.

The Corporation has also announced major expansions at both Cory and Rocanville. Cory will be expanded by 30%, and Rocanville, in a two-phase program, will be expanded

by 66%. As well as increasing the Corporation's role in the industry, these expansion programs will result in a combined overall total of 362 new jobs.

As it stands now, the Corporation is well on its way to meeting its initial objectives. With its current facilities and planned expansion, the Corporation will be able to meet the increasing demands for potash and at the same time maintain its position as the primary force in the North American Potash Industry.

As you will see elsewhere in this report, the Corporation achieved a profit during the first eight months it was in operation. Given the fact that we had one mine for eight months and the other for just three months, I consider the fact that a profit was made during this start-up phase to be a significant achievement.

A new corporation embarking on such a development normally does not expect to show a profit for the first three to four years. Our primary objective in these early years is to build a sound economic base that will permanently contribute to the long-term health of the Corporation. I would also like to emphasize that this was achieved while the Corporation was also meeting all of its tax obligations — a total of \$7,946,000 in provincial taxes, royalties and reserve tax.

Head Office personnel located in Saskatoon are occupying key jobs that were formerly located in Houston, Toronto, South Africa, France and Germany. For the first time in the history of the industry in this province, decisions affecting the future of our potash industry are being made in Saskatchewan by Saskatchewan people.

The establishment of the Corporation's Head Office in Saskatoon, as well as having a significant economic impact on that city, has also finally established the province as a world-wide focal point for the potash industry. Instead of simply supplying a key natural resource to others for world-wide distribution, sales and handling, we are now able also to provide leadership and decision-making that is compatible with our own long-range goals.

The rapid growth and early success of the Potash Corporation of Saskatchewan on all levels confirms that the people of Saskatchewan are capable of managing their own resources. I am confident that we will be able to sustain the progress that has been made, and on behalf of the Board of Directors, I wish to thank the Corporation's employees for their present achievements and their willingness to accept the challenges of the future.

Elwood Cowley

The President's View

Although the Potash Corporation of Saskatchewan has been in existence since early 1975, the 1976-77 fiscal year was the first in which we actually functioned as a producer.

Our corporate objectives during this first critical year were threefold. We set out to purchase viable and healthy potash properties in the province; to create production and marketing systems that would provide smooth and efficient handling of our potash; and to assemble a highly skilled Saskatchewan-based team of professionals to organize and oversee the Corporation's long-term development.

As of June 30, 1977, we have begun to make some headway in meeting these goals. By year-end we had purchased two mines — Cory Division (formerly the Duval Mine) on October 29, 1976, and Rocanville Division (formerly Sylvite) on April 22, 1977.

Subsequent to our year-end we have also purchased the Alwinsal property now called Lanigan Division.

We have developed and refined our production and management systems to the point where I believe we can offer the Saskatchewan potash industry the long-term leadership it requires.

To the degree that we have achieved these initial goals, the credit and respect rightfully belongs to the many individuals who are dedicating themselves to a career with the Corporation.

In total the Corporation now employs more than 1,100 people. Just over 1,000 of these work in the mines and refineries at our three properties. Another 70 individuals work out of Saskatoon Head Office.

I am pleased to report that with few exceptions we have succeeded in retaining people who were previously involved at all levels in the industry. There may be a tendency to focus attention on our enormous reserves of potash but I believe that the Corporation's greatest assets will always be the talents and commitments of its employees.

Financial details of our first year of operation are presented elsewhere in this report but I would like to briefly touch on some of the events I consider to be highlights.

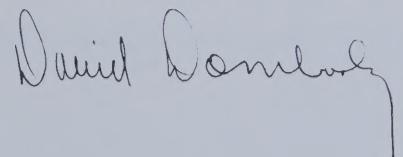
In an eight month period leading up to our year-end, the Corporation rose from a position of zero production to become the second largest producer in North America. During that period we sold over 540,000 tons of potash and achieved a net profit of \$890,000, while also meeting all tax and royalty payments. The purchase of the Alwinsal property has further strengthened our production and marketing position to the point where we are now the largest single producer and seller of potash in North America.

The 1976-77 fertilizer year was a record one for potash sales to the United States, the Saskatchewan industry's largest customer. The fertilizer industry has traditionally been subject to cyclical fluctuations and this past year has been no

exception, with a gradual softening in price even as demand and consumption increased. Under the circumstances I am pleased that the Corporation has been able to achieve a profit while meeting all tax obligations.

We expect 1977-78 will be a challenging year for all of us in the fertilizer industry but there are encouraging signs. Offshore sales seem to be increasing and our long-term forecasts appear to be in line with the overall performance of the industry.

On behalf of the Corporation's management team and the Executive Office I represent, it is my privilege to thank the people of P.C.S. for their achievements and effort in laying the groundwork for our long-term success.



Financial Highlights

Sales	\$ 22,225,000
Total Salaries	\$ 6,078,000
Purchase of Property	
Plant and	
Equipment (Net)	\$264,997,000
Operating Cash Flow	\$ 6,324,000
Net Income	\$ 890,000
Provincial Taxes,	
Royalties and	
Reserve Tax	\$ 7,946,000

Board of directors

as at June 30, 1977

Honourable Elwood Cowley,
Chairman, Regina
Provincial Secretary

Honourable Roy J. Romanow,
Vice-Chairman, Regina
Attorney General

Garry H. Beatty, Regina
Managing Director,
The Government Finance Office

John S. Burton, Regina
Associate Deputy Minister,
Department of Tourism and
Renewable Resources

Douglas H. Fullerton, Ottawa
Business Consultant

Roy E. Lloyd, Regina
Chief Planning Officer,
Executive Council

Kenneth M. Lysyk, Vancouver
Dean of Law,
University of British Columbia

Frank H. Buck, Secretary to the Board
Corporate Secretary,
The Government Finance Office

Executive Management

David S. Dombowsky
President

Donald R. Ching
Executive Vice-President of
Administration

Peter V. Gundy
Executive Vice-President of
Finance

Donald G. Matheson
Vice-President of Corporate
Planning and Marketing

Brian C. Kaukinen
Vice-President of Engineering
and Development

Head Office... Saskatchewan

In October of 1976 the Corporation established its Head Office in Saskatoon. From an original group of 23 people then, the staff had grown by year end to a total of sixty. The office is located in the new Spadina Towers office-condominium complex.

The Corporation's Head Office is organized according to function with divisions consisting of: Finance; Engineering and Development; Marketing; Corporate Planning; and Administration. Each section has a Vice-President who reports directly to the President.

The Engineering and Development Division and the Marketing Department's Order Processing, Data Transmission and Communications Co-ordinating Centre play typical roles within the overall functioning of Head Office.

Engineering and Development is responsible for planning, co-ordinating, implementing and supervising the expansion programs for existing facilities.

The Order Processing, Data Transmission and Communications Co-ordinating Centre houses the general TWX system by which Head Office is linked to the sales office in Atlanta. The Centre also houses the dedicated teletype system linking Head Office to each of the Corporation's mines. An order placed with the Atlanta Office by any member of the field sales force is immediately relayed to Saskatoon for processing. It is co-ordinated with other orders and teletyped to the appropriate mine to be handled.



The Production Picture

The Potash Corporation of Saskatchewan experienced a period of extremely rapid growth during the fiscal year ending June 30, 1977.

In eight months, the Corporation became the second largest producer of potash in North America. With two mines fully operational, the Corporation produced a total of 823,864 tons of potash during the first fiscal year. Production figures show that the yield from Cory Division totalled 622,588 tons; Rocanville, which began production April 22, produced 201,276 tons to the year end.

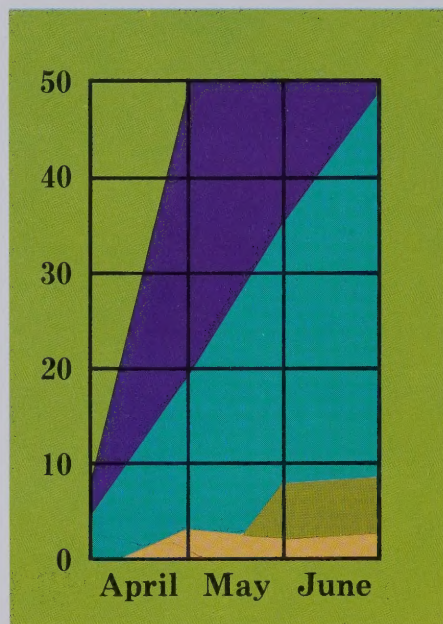
Expansions to both mines are currently underway. A 30% expansion of Cory Division is to be completed by the 1979 fertilizer year. Plans are that Rocanville will be expanded by 66% in two stages. The first stage, to be completed by the fall of 1979, will increase the plant's capacity by 200,000 tons to 1,400,000 tons. The final stage, scheduled for completion by 1981, will increase the capacity to 2,000,000 tons annually.

The Cory expansion has three main facets: the mill circuit will be debottlenecked, particularly in the desliming and tailings area; the hoist speed will be increased from 2200 feet per minute to 3600 feet per minute; and the underground storage will be increased to a capacity of 6,000 tons.

During the construction phase of the Cory expansion there will be approximately 25 jobs. When the expansion goes on stream, a further 12 production positions will be created. At Rocanville, phase one construction will create an estimated

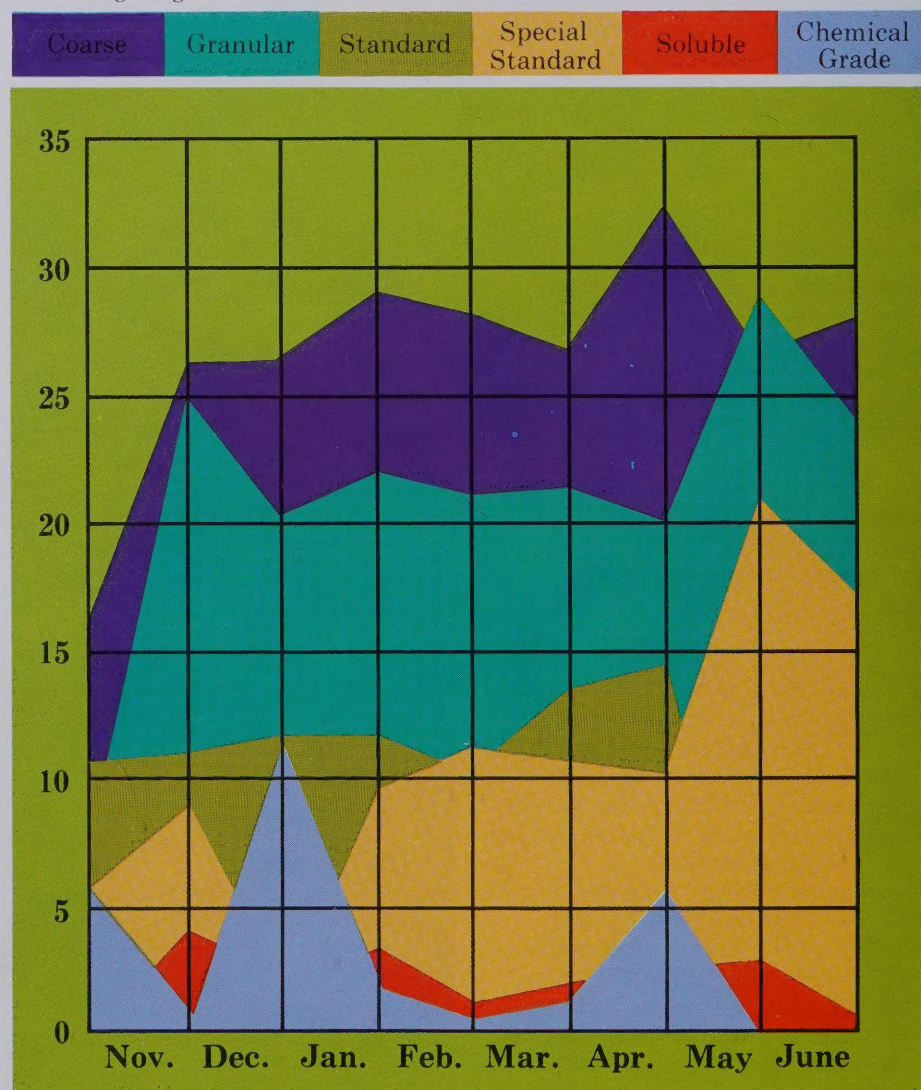
Rocanville

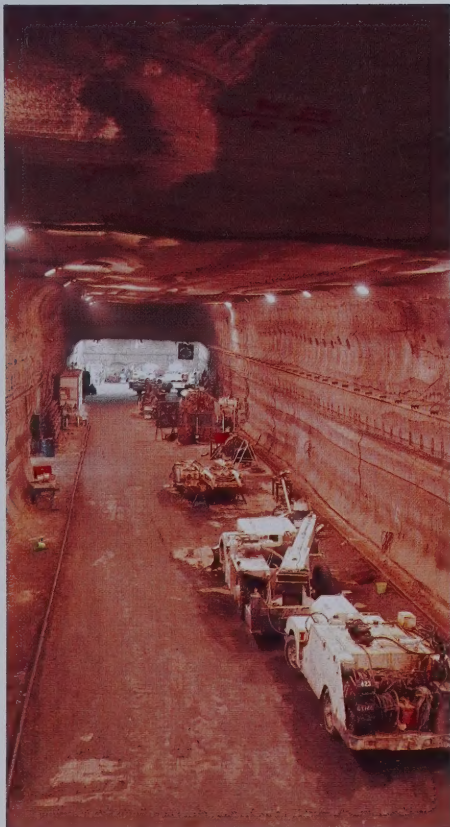
The chart at left shows the monthly tonnage (in thousands of tons) according to grade.



Cory

The following chart shows the monthly tonnage (in thousands of tons) according to grade.

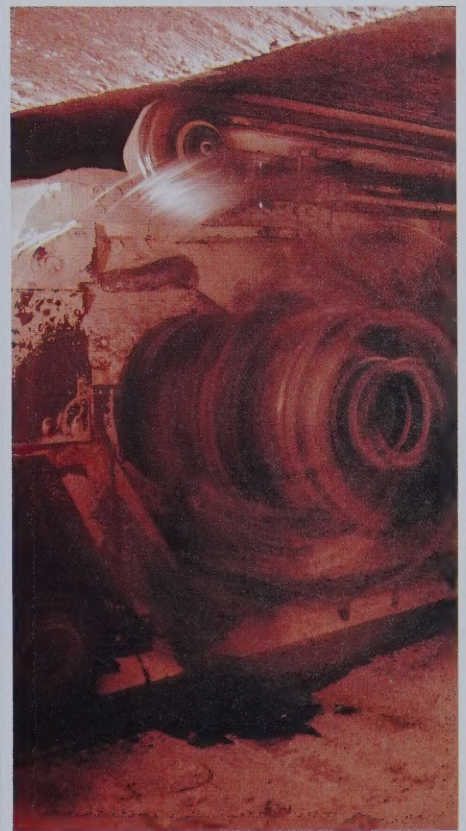




50 additional jobs; phase two construction will result in another increase of about 200 jobs. And, finally, when Rocanville's expansion begins producing it will be responsible for about 75 production positions. This will mean an overall combined total of 362 jobs directly attributable to the two expansions.

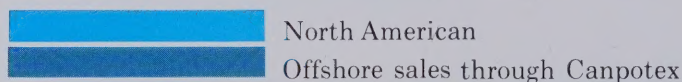
The Corporation is functioning efficiently and production objectives are consistently being met. As the world market for potash continues to grow, the Corporation must also grow in order to meet the demands.

The recent (November, 1977) acquisition of the Alwinsal mine, renamed Lanigan Division, will make the Corporation the largest single producer and seller of potash in the Western Hemisphere. And further acquisitions and the expansions of existing facilities will enable the Potash Corporation of Saskatchewan to maintain its position as the dominant force in potash for North America.

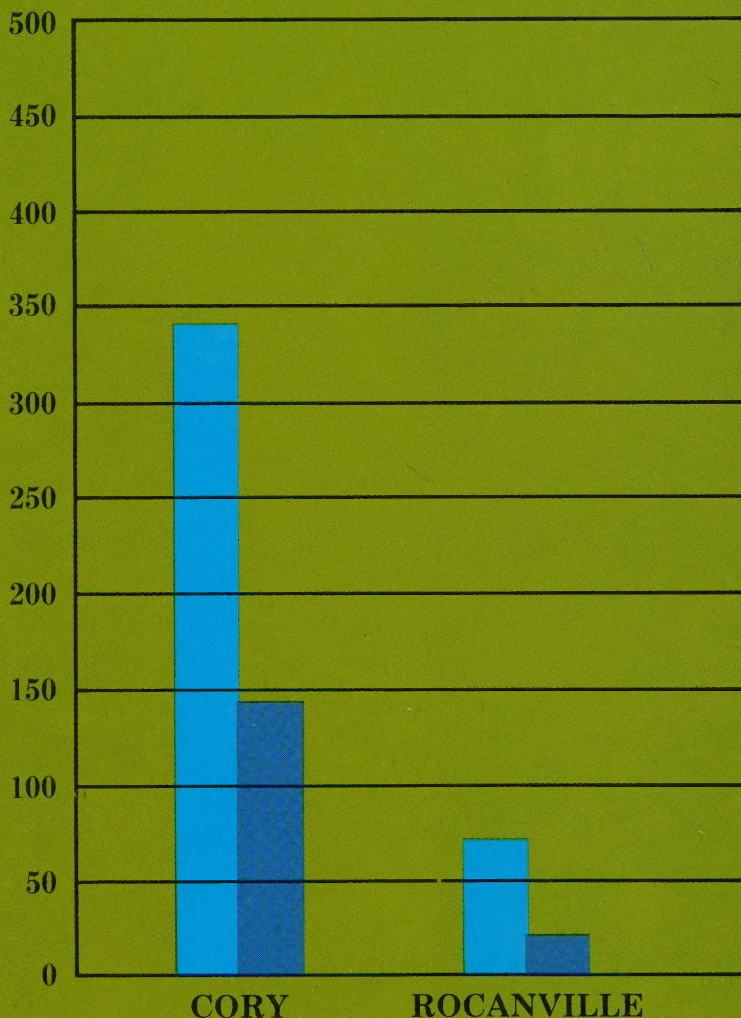


A progress report on marketing.

During the 1976-77 fiscal year, the Corporation sold more than 540,000 tons of product. The graph below indicates the total sales for this period.



Thousands



The Corporation's entry into the market as a new member of the industry has been well received in both Canada and the United States.

By the end of the first fiscal year, after eight months of operation, the Corporation had sold more than 540,000 tons of product, showing an overall profit of \$890,000.

To meet the marketing needs of the Corporation, a complete sales organization was set up and placed in the field with offices in Saskatoon and Atlanta, Georgia.

In addition, the Corporation has established a network of sixteen warehouses. Fifteen of these are in the United States, principally in the high sales area of the mid-western states. The other warehouse is located at the port facilities of Vancouver, British Columbia.

A fleet of 450 leased railway hopper cars adds further flexibility to the service available to our North American customers by aiding in efficient movement of product during peak season.

During the year under review, the Corporation succeeded in maintaining a proportionate share of the market, and the sales force has permanently established its position throughout the marketplace. The recent purchase of a third facility, Lanigan Division, makes the Corporation the largest exporter of potash in the western world.



Offshore Marketing:

The Corporation markets all its offshore sales through Canpotex, a central marketing agency owned by the producers and established for the sole purpose of marketing Canadian produced potash outside North America.

Canpotex maintains its Head Office in Toronto, a regional office in Regina, and a wholly-owned shipping company, Canserv (Canpotex Shipping Services Limited), in Vancouver.

Canpotex leases 1300 covered hopper cars which are coupled into twenty-two permanent trains shuttling back and forth between Saskatchewan and the bulk-handling facilities at the Port of Vancouver.

Canpotex utilizes two deep-sea

terminals which provide storage capacity for 300,000 tons of product, which can unload trains within a few minutes, and which can simultaneously load more than one ship at rates up to 15,000 tons per day, seven days a week. As part of these facilities, the Corporation has its own warehouse in Vancouver capable of storing 70,000 tons of product.

In addition to being a shareholder of Canpotex, and as well as being represented on its Board of Directors, the Potash Corporation of Saskatchewan plays a role of increasing significance as that organization's major supplier. As the Corporation acquires a larger percentage of Saskatchewan's productive capacity, its share of Canpotex shipments will increase proportionately. The importance of this relationship will increase as developing countries strive to increase their food production through the use of fertilizers.



Potash Corporation of Saskatchewan

Auditors' Report

T

o the Members of the Legislative Assembly of the Province
of Saskatchewan.

We have examined the consolidated balance sheet of Potash Corporation of Saskatchewan and its subsidiaries at June 30, 1977 and the consolidated statements of income and retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion these consolidated statements present fairly the financial position of the Corporation and its subsidiaries as at June 30, 1977 and the results of their operations and the changes in their financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

SASKATOON, Canada
October 14, 1977

Winifred Higgins Sturman 180

Chartered Accountants

Potash Corporation of Saskatchewan

Consolidated Balance Sheet

JUNE 30, 1977

ASSETS

Current Assets	
Short term investments, at cost	\$ 22,944,000
Accounts receivable (net of allowance for doubtful accounts of \$60,000)	7,645,000
Product inventory	9,828,000
Material and supplies inventory	4,908,000
Deposits and prepayments	1,000,000
	<u>46,325,000</u>
Property, plant and equipment, at cost (net of accumulated depreciation of \$5,038,000)	260,205,000
Deferred charges (net of amortization of \$396,000)	6,900,000
	<u>\$ 313,430,000</u>

LIABILITIES AND RETAINED EARNINGS

Current Liabilities	
Bank indebtedness	\$ 501,000
Accounts payable and accrued charges	7,610,000
	<u>8,111,000</u>
Advances from the Minister of Finance (Note 3)	75,000,000
Energy and Resources Development Fund Loan (Note 4)	229,429,000
Retained earnings	890,000
	<u>\$ 313,430,000</u>

ON BEHALF OF THE BOARD

Cluwood Cowley

Director

W. H. Smith

Director

See accompanying notes

Potash Corporation of Saskatchewan

Consolidated Statement of Income and Retained Earnings

for the year ended
JUNE 30, 1977

Income	
Sales	\$ 22,225,000
Interest and other	2,166,000
	<u>24,391,000</u>
Costs and expenses	
Operating costs, other than those shown below	\$ 13,095,000
Depreciation	3,035,000
Selling and administrative expenses	4,680,000
Interest on long-term debt	2,691,000
	<u>23,501,000</u>
Net income and retained earnings	<u>\$ 890,000</u>

See accompanying notes

Potash Corporation of Saskatchewan

Consolidated Statement of Changes in Financial Position

for the year ended
JUNE 30, 1977

Financial resources were provided by

Operations	
Net income	\$ 890,000
Items not affecting working capital	
Depreciation and amortization	5,434,000
Proceeds from disposal of property, plant and equipment	68,000
Advances from the Minister of Finance	75,000,000
Energy and Resources Development Fund Loan	229,429,000
	<u>\$ 310,821,000</u>

Financial resources were used for

Purchases of property, plant and equipment	\$ 265,065,000
Additions to deferred charges	3,942,000
	<u>269,007,000</u>

Increase in working capital	<u>41,814,000</u>
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Working capital, June 30, 1977	38,214,000
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Working capital, deficiency, June 30, 1976	3,600,000
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Increase in working capital	<u>\$ 41,814,000</u>
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See accompanying notes

Notes to Consolidated Financial Statements

JUNE 30, 1977

1. Accounting policies

(a) Principles of consolidation

The consolidated financial statements include the accounts of the Potash Corporation of Saskatchewan and its subsidiary companies, all of which are wholly owned.

Subsidiary companies

Potash Corporation of
Saskatchewan Mining
Limited

— Cory Division

— Rocanville Division

Potash Corporation of
Saskatchewan Sales Limited

(b) Inventories

Inventory of product is valued at the lower of average cost or net realizable value.

Inventory of material and supplies is valued at the lower of average cost or replacement cost.

(c) Depreciation and amortization

(1) Plant and equipment costs are depreciated on a straight-line basis over the

estimated productive life of each asset.

Shaft and development costs are depreciated on a unit of production basis over the estimated useful life of the shaft or reserves.

(2) Major renewals and betterments are added to the property accounts while minor replacements, maintenance and repairs which do not improve or extend productive life are expensed as incurred.

(3) All preoperating costs prior to October 29, 1976 and expenditures relating to the acquisition of each mine have been deferred and will be amortized over a reasonable predetermined period not exceeding ten years.

(d) Foreign exchange translation
Foreign operating transactions are translated to Canadian dollars at the average exchange

rate for each month. Foreign current assets and liabilities are translated on the basis of year-end exchange rates. Non-current assets and liabilities are translated at the exchange rate prevailing at the time of the transaction.

(e) Interest

Interest associated with major capital expenditures is capitalized during the construction period and written off over the estimated useful life of the asset. All other interest is expensed as incurred.

2. Status of the Potash Corporation of Saskatchewan

Potash Corporation of Saskatchewan was established by Order-In-Council on February 4, 1975 and continued under the Potash Corporation of Saskatchewan Act, proclaimed on April 1, 1976.

Subsidiary companies of the Potash Corporation of Saskatchewan are incorporated under the Companies Act of the Province of Saskatchewan.

3. Advances from the Minister of Finance

The Province of Saskatchewan incurred long-term debt of \$75,000,000 by the issue and sale of bearer bonds dated January 28, 1977, at 8 $\frac{3}{8}$ % interest per annum, payable semi-annually. The principal is due in three annual installments of \$25,000,000 on January 28, 1982 to 1984, inclusive.

The bonds were issued in the name of the Province of Saskatchewan and the proceeds were transferred to the Potash Corporation of Saskatchewan as authorized by Order-In-Council 115/77. The Province of Saskatchewan requires the Potash Corporation of Saskatchewan to follow the same terms for interest and principal payments as stated in the bonds.

4. Energy and Resources

Development Fund Loan

During the year, two loans totalling \$229,429,000 were received from the Energy and Resources Development Fund. The first loan

in the amount of \$121,429,000 was authorized by Order-In-Council 1413/76 and the second loan in the amount of \$108,000,000 was authorized by Order-In-Council 627/77. The Orders-In-Council do not specify any interest or principal repayment terms. These funds were used for capital purposes by the Potash Corporation of Saskatchewan to purchase mining operations now operating as Potash Corporation of Saskatchewan Mining Limited.

5. Acquisitions

On October 29, 1976 the Potash Corporation of Saskatchewan acquired certain assets of Duval Corporation of Canada potash mining operations in Saskatchewan for a total purchase price of \$128,500,000 (United States dollars).

On April 22, 1977, the Potash Corporation of Saskatchewan acquired certain assets of Hudson Bay Mining and Smelting Co., Limited potash mining operations in Saskatchewan for a total

purchase, price of \$144,000,000 (Canadian dollars).

6. Subsequent event

On September 15, 1977, the Potash Corporation of Saskatchewan entered into an Agreement to purchase certain assets related to the operation of a potash mine and mill in Saskatchewan from Alwinsal Potash of Canada Limited. The purchase price to be paid by the Potash Corporation of Saskatchewan is as follows:

- (a) The sum of \$56,500,000 in cash.
- (b) A \$20,000,000 non-negotiable promissory note payable to the order of Alwinsal Potash of Canada Limited, at the rate of 6% per annum, payable on October 31, 1981.
- (c) The assumption of Alwinsal Potash of Canada Limited's liability for potash reserve tax relating to its operation up to the closing date, which amount will not exceed \$9,000,000.

7. Lease commitments

Potash Corporation of Saskatchewan has long-term lease agreements, the longest of which expires in 1982. Commitments under the lease agreements will approximate \$2,270,000 in 1978.

8. Contractual obligations and commitments

- (a) Potash Corporation of Saskatchewan Mining Limited has commenced expansion of the Cory Division mining operations at an estimated cost of \$7,102,000.
- (b) Potash Corporation of Saskatchewan is a shareholder of Canpotex Limited. Any losses incurred by Canpotex Limited are guaranteed by its shareholders. As of the balance sheet date no significant losses have been incurred by Canpotex Limited.
- (c) Potash Corporation of Saskatchewan has an option to purchase mineral rights at a cost of \$2,300,000. The option expires November 7, 1977 but is being re-negotiated.

Corporate Management

HEAD OFFICE

G. A. Simons
Industrial Relations Director

Steve Zapaniuk
Purchasing Director

Patrick M. Waters
Public Affairs Director

Glen E. Shields
Controller

Alec Kocur
Chief Accountant

Douglas A. Karvonen
Manager,
Economics and Corporate Planning

C. R. Haryett
General Manager,
Engineering and Development

SALES LIMITED

James A. Hunter
North American Sales Manager

J. O. Ellis
Sales Administration Manager

George Clarke
Director,
Transportation and Distribution

MINING LIMITED

D. J. Irvine
Plant Manager — Lanigan Division

J. A. Hambleton
Plant Manager — Rocanville Division

J. J. Bubnick
A/Plant Manager — Cory Division

